Weekly Economic Review

Energy prices continue to mute inflation

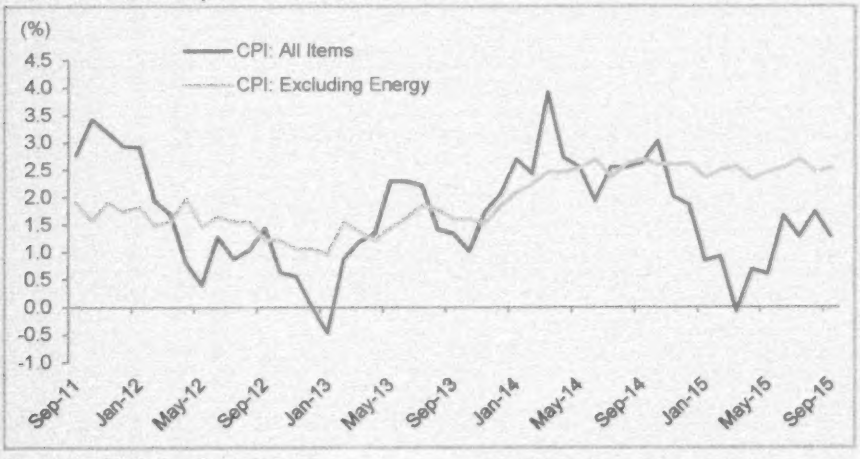
Consumer Price Index

Alberta inflation stabilizes

The Alberta Consumer Price Index (CPI) rose moderately by 1.3% year-over-year (y/y) in September. Energy prices were down 13% y/y, mainly due to lower gasoline and electricity prices; natural gas prices jumped between August and September. Excluding energy, inflation was 2.5% (Chart 1). While energy prices have been putting downward pressure on inflation, other CPI components have exerted upward pressure. The largest contribution to inflation came from homeowner's home and mortgage insurance, which increased 15.6% y/y. Food (+3.8% y/y) and furniture (+8.7% y/y) prices also had notable gains.

Chart 1: Inflation excluding energy remains above 2%

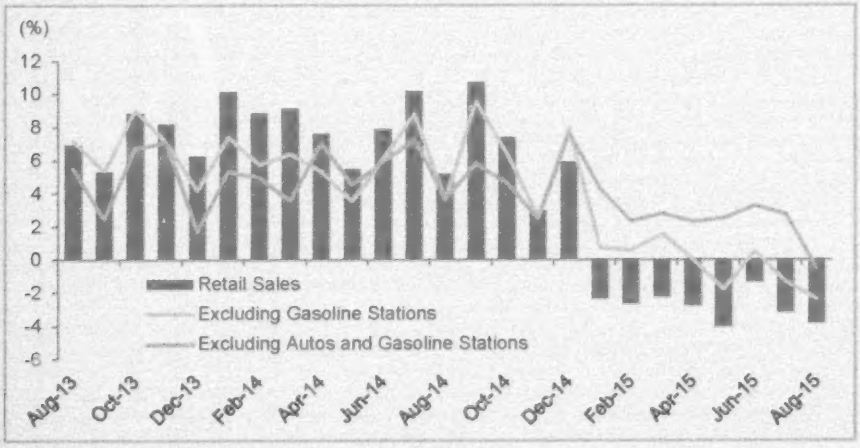
Alberta consumer price inflation



Source: Statistics Canada

Chart 2: Retail sales were lower across the board

Year-over-year change in Alberta retail sales



Source: Statistics Canada

Low energy prices also helped to lower Canadian inflation, which slowed by 0.3 percentage points to 1.0%. Core inflation, which excludes the eight most volatile CPI components, was stable at 2.1%. Core inflation is used by the Bank of Canada to measure underlying inflation.

Retail Sales

Broad-based declines in sales

Alberta retail sales totaled $6.4 billion in August, up 0.1% from July, but down 2.9% from August 2014. Gas station, and motor vehicle sales continued to weigh on year-over-year sales growth, but declines extended past these two components (Chart 2). Excluding gas and automotive sales, retail sales were down by 0.5% y/y, the first decline since the end of 2012. Sales at food and beverage stores and general merchandise stores were responsible for the much of this decline.

Retail sales in Canada rose 0.5% to $43.6 billion in August, an increase of 2.8% y/y and 2.2% year-to-date.

Employment Insurance

Claims increase

After drifting lower from a peak in March, Alberta Employment Insurance (EI) claims in August rose to 27,980. This is an increase of 3,600 (or 15%) claims from July and 10,230 from August 2014. The total number of EI beneficiaries rose slightly to 52,450, the 12th-straight monthly increase. As

a result of the uptick, the number of beneficiaries was the most since September 2010. The majority of the year-over-year increases occurred in Calgary and Edmonton.

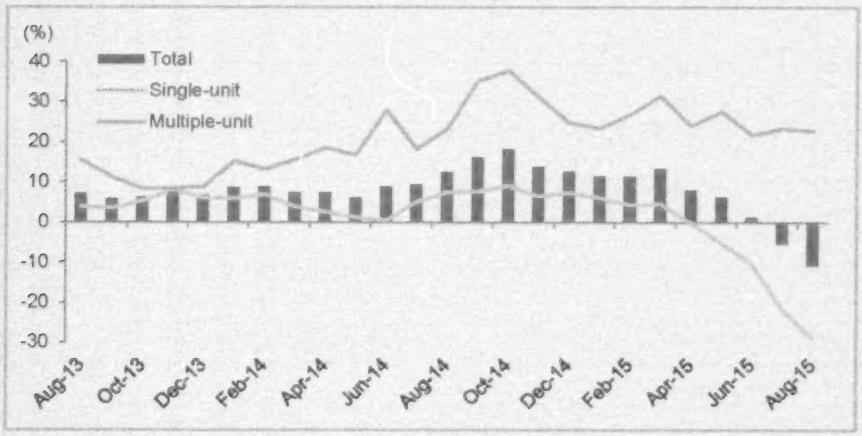
New Housing Construction

Weak single-unit investment

Alberta new housing construction in August was down 11% year-over-year, led by declines in single-family construction (Chart 3), which fell 29% y/y. This was the largest drop in single-family investment since mid-2011. Investment in apartment buildings was the highest on record, rising by 44% y/y, though the gains failed to make up for the decline in single family construction. Year-to-date, new housing construction remained 3.8% higher than in the same period of 2014.

Chart 3: New housing investment is down despite growth in multis

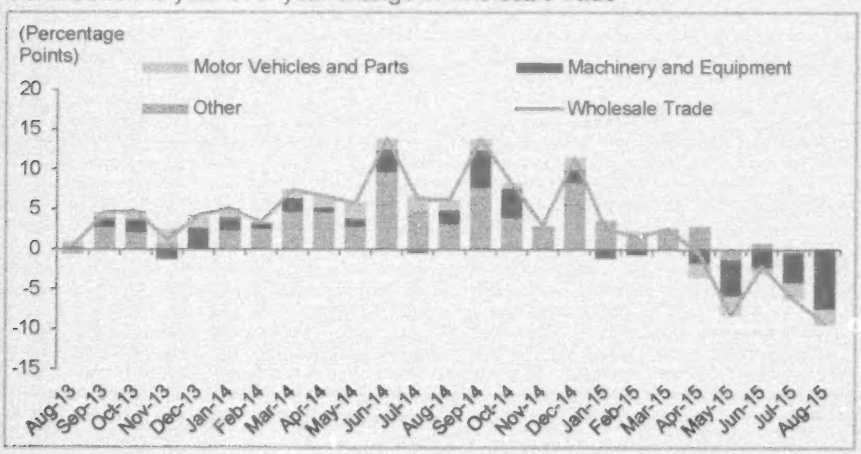
Year-over-year change in Alberta new housing investment



Source: Statistics Canada

Chart 4: Machinery products lead decline in wholesale trade

Contribution to year-over-year change in wholesale trade



Source: Statistics Canada

Wholesale Trade

Scaling back

Alberta wholesale trade in August totaled $6.6 billion, down 0.9% from July and 2.7% from August 2014. The year-over-year decrease was concentrated in machinery and equipment (Chart 4), which fell 9.8% y/y as demand for industrial machinery has declined with the slowdown in industrial activity. Motor vehicles and parts also weighed on wholesale trade, as sales of new vehicles in the province continued to diminish.

Despite weakness in Alberta, national wholesale trade increased by 3.8% with increases in all provinces save Alberta and Newfoundland and Labrador.

Bank of Canada

Weaker outlook for Canada

The Bank of Canada announced that it would keep its overnight interest rate unchanged at 0.5%, after two cuts earlier this year. Canada's medium term growth outlook was downgraded; the economy will grow by 1.1% this year before ticking up to 2% in 2016 and 2.5% by 2017. The downward revisions are attributable to increased pessimism about energy prices, protracted weakness in energy sector investment and employment, and the attendant economic slowdown that has permeated resource-producing provinces. The Bank's outlook for the global economy was balanced yet cautious, highlighting uncertainty surrounding China's prospects as well as "solid" growth in US private sector demand.

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Please see the *Alberta Economy - Indicators at a Glance* for a snapshot of Alberta indicators.